

November 2, 2005

Ms. Laura Demman, Director and Legal Counsel  
Nebraska Public Service Commission  
300 The Atrium, 1200 N Street  
Lincoln, Nebraska 68508

Dear Ms. Demman:

Nebraska 2005-2006 Supply Review.

The following is an update of NorthWestern Energy natural gas supply operations since the July 12, 2005 presentation in front of the commission.

The energy world changed dramatically in the 4 months since our presentation. Two major hurricanes damaged the natural gas and crude oil producing area around the gulf. Natural gas futures have hit record highs for almost every month of the year. Gasoline at the pumps has been over \$3.00 a gallon.

NorthWestern Energy continues to follow the natural gas supply model used since 2001. NorthWestern Energy filled the storage field it contracted for on the Kinder Morgan Interstate Pipeline. The value of stored gas is approximately 20 % higher than a year ago. NorthWestern Energy was able to keep that increase to only 20 % because it was able to fill the majority of its storage prior to the first major hurricane in late August.

The model, which uses historical and future prices to determine the level of supply purchased, was followed. As of October 31, 2005, the percentage that was purchased at a fixed price was slightly over 50% of projected winter volumes. The model does not call for additional volumes to be purchased at a fixed price, when the current prices are so abnormal, as compared to the prior 3 years historical prices. The model does allow the utility to purchase additional volumes if prices decrease during the actual months of the winter. NorthWestern purchased additional volumes in early November to bring the fixed price volumes to over 60%.

NorthWestern filed its winter PGA price in early November. The price for a residential customer including delivery, based on a 150 therm bill, is \$1.41 per therm. This compares to a winter price last year of \$1.02. This is an increase of

38%. When the national news reports are predicting 45% to 70% increases, we believe our model is providing protection to our customers. Since our November filing, the market has continued to soften. If we see this trend continue and are able to lock in additional purchase volumes at lower prices, we will file a PGA on January 1 with lower PGA prices than what is currently available.

If you have any questions, contact Clyde Gross (1-800-245-6977 ext. 8203) or Jeff Decker (1-800-245-6977 ext. 8315).